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Financial situation of UNIDO, including unutilized balances of appropriations

UNIDO's financial contribution to the United Nations Resident Coordinator system

Report by the Director General

The present report provides information on the financial situation of UNIDO with regard to the funding of the United Nations Resident Coordinator system.

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I. Background

1. The Resident Coordinator (RC) system is an important cornerstone of a coherent and well-coordinated United Nations development system. It encompasses all organizations of the United Nations system dealing with operational activities for development, regardless of their formal presence in the country. The RC system aims to bring together the different United Nations agencies to improve the efficiency and effectiveness of operational activities at the country level.

2. Resident Coordinators, who are funded and managed by the United Nations Development Programme, lead United Nations country teams in more than 130 countries and are the designated representatives of the United Nations Secretary-General for development operations. Working closely with national governments, Resident Coordinators and country teams advocate the interests and mandates of the United Nations system, while drawing on the support and guidance of the entire United Nations family. Resident Coordinators are drawn from a United Nations system RC candidate pool (UNIDO is currently not represented in this pool).

3. Coordinating development operations promotes more strategic support for national plans and priorities, makes operations more efficient and reduces transaction costs for governments. This helps the United Nations to be a more relevant and reliable partner for governments.

4. In particular with a view to addressing the challenges of a post-2015 development agenda, the comparative advantages of the United Nations development system at the country level will depend on several factors. These include effective coordination through a strengthened RC function, further decentralization of authority from headquarters to representatives of funds, programmes and specialized agencies, and the ability of the Resident Coordinators to propose amendments of projects and programmes to align them with the United Nations Development Assistance Framework (UNDAF), as well as amendments to UNDAF, to react to changes of national needs, priorities and challenges. As called for in General Assembly resolution 67/226 of 21 December 2012 and in response to a request from the Economic and Social Council (ECOSOC resolution 2011/7 of 18 July 2011), the principals of the United Nations Development Group (UNDG) reached an agreement in April 2013 on a centralized funding modality in support of the RC system. The funding modality is based on system-wide cost sharing among all UNDG member organizations and seeks to ensure that Resident Coordinators have the necessary, stable and predictable resources to effectively fulfil their mandates. The UNDG has taken the necessary measures to implement the centralized funding mechanism starting in January 2014 and a financial management system is being put in place.

5. This mechanism will replace current ad-hoc arrangements and requests for funds and support for the 10 agreed core coordination functions at the country level:

(a) Strategic analysis and planning;

(b) Oversight of the United Nations country programming cycle;

(c) Representation of and support of United Nations Secretariat and United Nations agencies/non-resident agencies;

(d) Support to national coordination systems and processes;

(e) Development and management of shared operational support services;

(f) Crisis management preparedness and response;

(g) External communication and advocacy;

(h) Human rights and development;

(i) Joint resource mobilization and fund management;

(j) General oversight and coordination of United Nations country teams.

6. The cost-sharing agreement will be based on a global funding scenario of $121 million annually, which is equivalent to some 0.8 per cent of development-related United Nations operational activities for development. Of these, $88 million are provided by UNDP as part of the "backbone" contribution and $33.7 million are to be cost-shared by participating agencies, including UNDP. This cost-sharing arrangement gives priority to countries in transition through the provision of enhanced support. The RC annual reporting system is being revised to ensure transparent reporting on the use of funds.

7. UNDG members participate in the cost-sharing based on the following three-step formula:

Step 1: **Annual base fee** to be contributed by all UNDG members and observers as a reflection that the RC system is owned by and benefits all members of the United Nations development system and recognizing that all members place a minimum load on the system:

(a) $175,000 for UNDG entities with less than $500 million average annual expenditures;

(b) $350,000 for agencies with average annual expenditures greater than $500 million.

Step 2: **Agency staff size and expenditures** as a reflection of the principle of fairness and to ensure that agencies contribute according to their abilities. UNDG member entities, including the United Nations Secretariat, contribute in proportion to their share of total UNDG expenditures (step 2 (a)) and staff count (step 2 (b)).

Step 3: **System load**, recognizes that different entities place a different load on the system and gain different magnitudes of benefit. UNDG members contribute in proportion to the share of currently operational UNDAFs and integrated strategic frameworks, in which they participate at the country level.

II. Current situation

8. Of the 18 UNDG members expected to contribute to the cost sharing modality, 10 UNDG members have confirmed their intent to provide the full amount foreseen in the UNDG cost-sharing formula in 2014. Five of these members have already paid the full amounts including the staff pro forma adjustment for 2014/15. In addition, four members confirmed that they will start contributing with a reduced

amount, and three members have yet to confirm their contributions. The contribution of the United Nations Secretariat will be subject to the approval of the General Assembly during its consideration of the 2016-2017 programme budget.

9. As not all UNDG member entities will be in a position to start contributing to the cost-sharing in 2014, a funding gap is expected for the RC system in the transitional phase of 2014 and 2015, for which the UNDG is seeking continued contributions from Member States, until the cost-sharing modality will become fully operational in 2016.

10. By the end of 2013, $12.3 million was received of the funding target of $33.7 million for 2014. An additional $9 million is expected to be signed and received from UNDG members, supplemented by $6 million from the strategic reserve of the United Nations Country Coordination Fund. The United Nations Development Operations Coordination Office (UNDOCO) has mobilized additional resources from Germany and Switzerland in the amount of $3.6 million for 2014, which reduces the expected funding gap for 2014 to approximately $3 million.

11. In its programme and budgets, 2014-2015 (IDB.41/5), UNIDO indicated that the Organization would not be able to contribute the full amount expected by the UNDG. Meanwhile, a memorandum of understanding has been concluded with UNDG/UNDOCO for the period 2014 to 2015, limiting UNIDO's contribution to the annual base fee of $175,000.

III. Requirements

12. UNDG/UNDOCO expressed its expectation that from 2016 UNIDO will pay its full contribution, as calculated through the cost-sharing formula. While exact requirements are not yet fixed, preliminary estimates indicate an annual expected contribution of €1 million.

IV. Action required of the Committee

13. The Committee may wish to make a recommendation to the Board for its guidance in respect of possible contributions to the RC system for the biennium 2016-2017, inter alia, on:

(a) A maximum level of contribution, which UNIDO will be allowed to pay;

(b) A funding source of such contribution, taking into account the tight situation of the regular budget.

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